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Introduction: Global Raw Materials Markets – National Raw Materials Policies

Hanns Günther Hilpert and Stormy-Annika Mildner

Trends on the Raw Materials Markets and Policy Responses

Since the turn of the millennium, increasing and sometimes volatile prices in combination with temporary supply shortages have moved minerals and metals high up the agendas of policymakers around the world. Numerous documents published by governments across the world document the urgency of the issue – the raw materials strategy of the German Federal Government being just one of them.

One reason why the state is currently experiencing a renaissance in the raw materials sector lies in the surge in demand, which came as a surprise to many market participants.[1] While there is no reason to fear exhaustion of minerals and metals from a geological perspective, prices cannot be expected to return to the comparatively low levels of the 1980s and 1990s – even if a cyclical downturn is quite conceivable. Driven by growing demand from China and other emerging economies, the former buyers' market has turned into a veritable sellers' market. Changing industrial demand structures, strong geographical and business concentration of supply, political interventions in the markets (such as export controls), and ecologically, politically, and socially driven conflicts in many poorer producing countries have further increased prices. Moreover, raw materials have become an attractive object of financial speculation. Due to the exhaustion of certain traditional mining sites, high development costs for new projects, long phase-in times, and high investment risks, global supply has not been able to adapt quickly to rising demand and prices. As a consequence, the most recent boom (2003 to early 2012) proved to be the longest since 1945 (see Figure 1, p. 12).

Prices fell temporarily in the course of the financial and economic crisis of 2008/2009, only to rebound shortly thereafter. For example, the price of a tonne of copper, which had been around US$1,683 in January 2003, leapt to US$9,554 in January 2011.[2] The price of a tonne of iron ore rose from US$12.68 to US$187.18 during the same period.[3] Prices fell between late 2011/early 2012 and mid-2012 due to depressed economic prospects in Europe and China. Since mid-2012, however, prices of important industrial minerals have risen again. Most analysts expect prices to remain at a generally high level in the medium term – providing the euro crisis is resolved and stronger growth returns to emerging economies.

Although the raw materials sector has always been one in which states and state-owned enterprises operate, state interventions have increased in number and intensity since the mid-2000s. The laissez-faire attitude towards international raw materials markets is increasingly on the retreat.

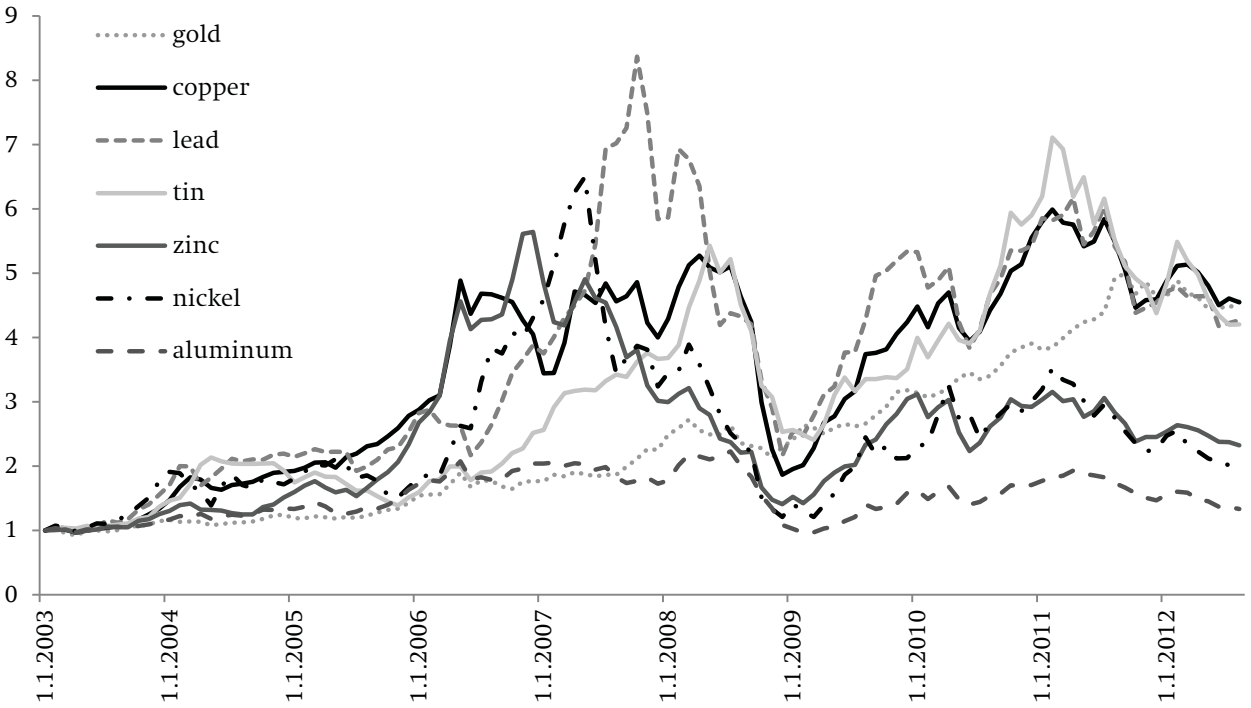
The strategic objectives and instruments of national raw materials policies vary according to the domestic raw materials base, domestic demand, and dependence on international markets. Accordingly, the interests of consumer and producer countries contrast sharply. Import-dependent countries are interested primarily in a secure supply of minerals and metals at affordable prices, and employ a wide range of measures to secure this. Some governments seek to arrange exclusive supply contracts or support national enterprises in bidding for contracts overseas. Others rely on strategic stockpiling to become less vulnerable in case of supply disruptions, or seek to diversify supply sources by concluding resource partnerships and supporting producer countries through investment in training, infrastructure, and industrial processing.

1 For a more extensive discussion, see Hanns Günther Hilpert, Gitta Lauster, Stormy-Annika Mildner, and Florian Wassenberg, "Wettlauf um Metalle: Eisenerz und Seltene Erden," in *Konfliktrisiko Rohstoffe? Herausforderungen und Chancen im Umgang mit knappen Ressourcen*, SWP-Studie 5/2011, ed. Stormy-Annika Mildner, pp. 131–70 (Berlin: Stiftung Wissenschaft und Politik, February 2011); Hanns Günther Hilpert, Gitta Lauster, Stormy-Annika Mildner, and Florian Wassenberg, "Metals: The Case of Rare Earths," in *Resource Scarcity – A Global Security Threat?* SWP Research Paper 2/2011, ed. Stormy-Annika Mildner, Solveig Richter, and Gitta Lauster, pp. 25–27 (Berlin: Stiftung Wissenschaft und Politik, March 2011).

2 BGR Database 2012.

3 IMF, *Primary Commodity Prices*, http://www.imf.org/external/np/res/commod/index.asp (accessed August 21, 2012).

Figure 1
Price indices of selected metals, in U.S. dollars at current market prices, January 2003 to August 2012 (Index: 2003 = 1)



Source: BGR Database 2012.

Others still work to develop substitutes, efficiency, and recycling.

The interests of resource-rich countries are more diverse, and resource strategies and measures differ widely. Some countries seek to increase the contribution of the raw materials sector to economic growth and development. Some are interested in maximizing exports while others are more concerned with securing supplies for domestic manufacturing. And some governments use raw materials to achieve broader foreign policy goals. Governments employ very different instruments to pursue these various interests. Some impose taxes on mineral and metal exports (such as export tariffs), sometimes even limiting exports using quotas.[4] Others subsidize imports or impose resource taxes, while yet others enact national minimum ownership quotas for mining companies or support the global market activities of domestic mining companies. In some cases, raw materials policies follow internal political and foreign policy objectives rather than economic rationale. Resource nationalism usually results in discrimination against all or some foreign consumers (or countries), and in its strongest form can lead to nationalization of the resource sector.

The government activities in consumer countries present a typical case of the competition paradox.[5] At first sight, a state can improve its supply security by imposing export restrictions, subsidizing imports, and establishing raw materials stockpiles or supporting domestic companies investing in mining abroad. However, this strategy promises success only as long as other states are not employing the same measures (or at least not to the same degree). In the worst case, a prisoners' dilemma emerges, where rational political decisions on the national level lead to collectively adverse results on the global level.[6] Unintended consequences would include raw materials becoming

4 WTO, *WTO Document WT/TPR/OV/14*, November 2011.

5 Wolfgang Stützel and Rolf-Dieter Grass, *Volkswirtschaftslehre* (Munich: Vahlen, 1983), pp. 152–59.
6 Robert Axelrod, *Die Evolution der Kooperation* (Munich: Oldenbourg, 2000).

even scarcer on international markets, fueling price surges and price volatility and intensifying conflicts.

The adverse effects in this case would not be restricted to consumer countries. Although producer countries would benefit from higher prices and improved terms of trade, they would also be exposed to greater risks. If high resource rents coincided with poor governance and weak institutions, corruption, rent-seeking, and mismanagement, intra-state conflicts could soon follow. Additionally, rising exchange rates due to growing demand can become a hindrance to export-oriented manufacturing industries (the "Dutch disease"). Finally, environmental and resource protection as well as social aspects are often neglected as a consequence and states do not invest sufficiently in infrastructure, education, and health in order to create a solid basis for sustainable economic growth. An abundance of raw materials can then quickly turn from an engine for economic and social development into a curse.

The Need for Global Governance

"Global governance" of raw materials can counter the risk of a prisoners' dilemma, keep rivalry for minerals and metals at bay, and strengthen the markets' allocation mechanisms. Functioning international raw material markets require a solid framework, with a reliable legal system, secure transport routes, efficient market platforms (raw materials exchanges), and reliable information (for example, from geological surveys). Governments also play a decisive role. For example, trade and competition policy can counteract market failures. Government action is also indispensable when it comes to promoting an environmentally friendly and economically sustainable raw materials economy, developing a recycling economy, preventing cartels and market disruptions, and curbing local and international potential for conflict. While existing (inter)national raw materials governance may have been adequate during the twentieth century, in times of often falling prices, it is unable to tackle the new market and competition conditions of the twenty-first century.

Within the UN system, independent study groups have been established for four metals: the International Lead and Zinc Study Group (ILZSG), the International Copper Study Group (ICSG), and the International Nickel Study Group (INSG). These are open to countries with significant involvement in production, consumption, or international trade, usually industrial and emerging economies, as well as a few resource-rich developing countries. The ICSG has twenty-four members, including Australia, China, the European Union, and the United States. The INSG has fifteen, including Brazil, Australia, Japan, and Russia (but not the United States or China). The ILZSG has thirty members, including China and the United States. The objective of these study groups is to create market transparency by providing data on production, consumption, trade, and prices, and national policy approaches such as environmental legislation. But these initiatives do not go far enough. Concentrating on a certain raw material makes sense, but the remit of the study groups is generally too narrow.[7]

The Intergovernmental Forum on Mining, Minerals, Metals, and Sustainable Development (IGF) is a forum for dialog and consultation to enhance the mining sector's contribution to sustainable development. The IGF is a voluntary coalition of governments founded after the World Summit on Sustainable Development (WSSD) in 2005. It is the only intergovernmental forum that permits mining ministries from all over the world to exchange views on the challenges facing mining and its potential contribution to sustainable development, regardless of whether the country possesses raw materials of global significance. The IGF also actively promotes its topics within the global development and sustainability agenda. Its Mining Policy Framework lays out comprehensive recommendations on best practice and policy in the minerals sector.[8] More than half of its forty-three members are African countries. Others include significant resource-producing developing and emerging economies in Asia (Kazakhstan, Mongolia), Oceania, Latin America (Brazil, Mexico), and the Caribbean, as well as Australia, Canada, and Russia. But important actors such as China, Japan, and the United States are not members, and from the European Union only the United Kingdom and Romania have joined.

The International Resource Panel (IRP) of the United Nations Environment Program (UNEP) is a first step

7 International Lead and Zinc Study Group, http://www.ilzsg.org/static/home.aspx; International Copper Study Group, http://www.icsg.org; International Nickel Study Group, http://www.insg.org (accessed October 11, 2012).
8 Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development, *Mining and Sustainable Development. Managing One to Advance the Other*, 2010, http://www.globaldialogue.info/Mining%20Policy%20Framework%20final.pdf (accessed October 10, 2012).

toward a comprehensive approach to global management of natural resources. Its task is to disseminate scientific information on the sustainable use of natural resources and provide information on environmentally compatible economic growth. Metals recycling is one important topic. As the IRP's task is not to develop binding standards, its efficacy remains limited.

WTO rules place limits on quantitative export restrictions. Quantitative restrictions in the form of quotas or bans are forbidden. But exceptions leave considerable leeway: export quotas are allowed in the case of internal supply crises, if they serve the protection of depletable natural resources, the environment, human health and animal protection, or national security. Unlike import tariffs, export tariffs are allowed. They have not been reduced systematically in the past, nor are they bound at the WTO. The latter means that countries may raise existing export tariffs without violating WTO rules. Only a few countries have so far agreed to abolish export tariffs in WTO accession agreements. China is one of them.

The G20 has recognized the importance of improving raw materials governance and has started addressing the issue, although the focus to date has been on energy and agricultural markets rather than minerals and metals. Transparency and price volatility occupied an important place on the G20 agenda during the French presidency in 2011. The 2011 Summit Declaration emphasized that "appropriately regulated and transparent agricultural financial markets are a key for well-functioning physical markets and risk management," and committed to "mitigate[ing] the adverse effects of excessive price volatility for the most vulnerable through the development of appropriate risk-management instruments."[9] Energy resources also featured prominently in the final declaration. With regard to international raw materials markets, the G20 called for "enhanced market transparency [...] and [...] appropriate regulation and supervision." With respect to derivatives markets, "[m]arket regulators and authorities should be granted effective intervention powers to address disorderly markets and prevent market abuses."[10] Under a Japanese chair, the G20 Study Group on Commodities analyzed the drivers of price volatility, also consulting many other international institutions, and published its report in November 2011.[11]

During its G20 presidency in 2012, Mexico again placed food security and price volatility on the agenda, but the euro crisis crowded out many other topics and hardly any progress was achieved on raw materials. In the end, the summit merely confirmed that food security was "one of the most important challenges that the world faces today" and, against the background of a growing world population, called for an increase in sustainable agriculture and an intensification of efforts to increase market transparency (for example through the Platform for Agricultural Risk Management, the GEO Global Agriculture Monitoring, and the Agricultural Market Information System).[12] The 2012 Summit also emphasized the importance of transparency on energy markets, where price volatility can contribute significantly to economic instability, and stressed the positive impact of the Joint Organizations Data Initiative (JODI).[13] Minerals and metals were not mentioned specifically in the final declaration. The G20 Study Group on Commodities merged with the Study Group on Energy to become the Energy and Commodity Markets Working Group. A subgroup on raw materials (primarily agricultural and energy resources) headed by the United Kingdom and Brazil built on the 2011 results and addressed in particular the macroeconomic consequences of price volatility on economic growth, inflation, terms of trade, and state budgets.[14]

The G8 has already moved one step further than the G20, to address at least one aspect of the raw materials economy: the so-called resource curse (which is not exclusive to developing countries). In their Summit declaration of 2009, the G8 countries stressed the significance of the raw materials industry for the development and stability in many countries and the

9 *G20 Cannes Summit Final Declaration*, sections 40–51, from G20 Information Center, University of Toronto, http://www.g20.utoronto.ca/2011/2011-cannes-declaration-111104-en.html (accessed February 25, 2013).
10 Ibid., section 32.

11 G20 Study Group on Commodities, *Report of the G20 Study Group on Commodities*, http://www.cmegroup.com/education/files/G20Nakaso-November202011.pdf (accessed October 10, 2012).
12 *G20 Leaders' Declaration*, June 18–19, 2012, from G20 Information Center, University of Toronto, http://www.g20.utoronto.ca/summits/2012loscabos.html (accessed July 25, 2012).
13 Ibid.
14 Energy and Commodity Markets Working Group, *G20 Commodity Markets Subgroup Summary Report on the Impacts of Excessive Commodity Price Volatility on Growth* (n.p., June 2012), http://www.g20.org/images/stories/canalfinan/deliverables/energy_markets/Policy_Report_to_Mitigate_Commodity_Price_Volatility.pdf (accessed October 10, 2012).

necessity to introduce transparency and certification initiatives to increase government revenues and limit the corruption, conflict, and violence that can be fueled by revenues from natural resources.[15] At the Deauville summit in May 2011, they agreed to promote transparency by supporting EITI and committed "to setting in place transparency laws and regulations or to promoting voluntary standards that require or encourage oil, gas, and mining companies to disclose the payments they make to governments." The aim is to promote economic growth and development in resource-rich developing countries through greater transparency and good governance.[16]

Barriers to Cooperation

Although countries have become more aware that the challenges on the raw materials markets cannot be solved single-handedly, discussions in both the G8 and the G20 demonstrate how controversial the issue is. Some G20 states believe that the problems lie mainly in speculation and raw material cartels, whereas others blame government intervention in markets. The problem perceptions of the G20 members diverge widely, as do their concerns and interests. In light of rising prices and growing scarcities, strongly import-dependent industrial countries like France, Germany, Italy, and Japan, are concerned primarily with security of supply and industrial competitiveness. China, despite its large domestic mining sector, fears supply shortages threatening its own development and industrialization. Producer countries, such as Australia, Brazil, Canada, Russia, and South Africa welcome the rising prices and see them as a chance for prosperity and development.

Cooperation among the G20 is further impeded by differing ideas about regulation and by the diversity of mining traditions. Whereas governments and industries in Anglo-Saxon countries place more trust in the allocative function of free markets, their counterparts in continental Europe and East Asia fear a depletion of mineral reserves, mismanagement of markets and disruptions in supply chains. There is generally disagreement about the role of the state in the market and about what instruments should be used to tackle problems associated with the raw materials sector. The *German Government's Raw Materials Strategy*, for example, states that companies themselves are responsible for safeguarding their supplies. Accordingly, the German government should merely create the right conditions and intervene only where markets fail to function correctly. National stockpiling or a state company for exploration and mining are rejected as options. In other countries, the government plays a much more proactive role. In Japan and South Korea, companies are supported by state-owned raw material enterprises: JOGMEC (Japan Oil, Gas and Metals National Corp.) and KORES (Korea Resources Corp.). These are responsible for maintaining national stocks of oil, gas, and strategic metals, and also invest actively in mining and processing abroad. China goes even further, specifically supporting its domestic manufacturing sector by regulating raw materials markets, for example in the area of rare earth elements.

Major differences also exist with respect to the use of foreign (economic) policy instruments. Whereas the European Union, Japan, Mexico, and the United States regard export restrictions such as Chinese tariffs and quotas on minerals and metals as competition-distorting, China and other emerging economies cite national sovereignty and the need to protect, among others, resources, the environment, human health, and animal welfare. The G20 members also disagree on the objectives and the adequate instruments of development policy. Germany, for example, ties technical and financial aid to clear conditions of good governance, at least most of the time, in order to achieve better raw materials governance in partner countries. China, by contrast, forgoes such conditions.

The lines of conflict follow similar patterns when it comes to transparency in revenue streams and due diligence in supply chains. With the U.S. *Dodd-Frank Act* (2010) and the *EU Transparency Directive* (2011), the United States and European Union took the lead – and met fierce opposition from other G20 countries such as China and Russia.

Differences between G20 states concerning interests, ideas about regulation, objectives, and instruments interfere with effective international raw materials governance. The necessary preconditions for overcoming these barriers are improving transparency on strategies and policies pursued by the G20 members and strengthening communication between them

15 G8, *"Responsible Leadership for a Sustainable Future": G8 Declaration* (n.p., 2009), http://www.g8italia2009.it/static/G8_Allegato/G8_Declaration_08_07_09_final,0.pdf.
16 *G8 Declaration: Renewed Commitment for Freedom and Democracy*, Deauville, 2011, from G8 Information Center, University of Toronto, http://www.g8.utoronto.ca/summit/2011deauville/2011-declaration-en.html (accessed May 2, 2012).

on raw materials. Only if governments and national institutions dealing with raw materials communicate with each other, and mutual trust is built, there will be a realistic chance for global raw materials governance that can effectively tackle the problems on the markets. Even then, this will likely be a long-term project.

Presently, knowledge about the policies of the G20 states on minerals and metals is inadequate. That is the starting point of this report, which sets out to explore the opportunities and challenges of intensifying international cooperation by systematically examining the raw materials situations, strategies, and instruments of the G20 countries.

The next chapter explains the focus on G20 countries and identifies commonalities and differences within their raw material economies and policies. The individual country profiles that follow first give an overview of minerals in the national economy before analyzing a country's raw materials strategies and policies. All the G20 members are covered: Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the United States.